

Message Text

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TAGS: ETRD, GATT, IC

SUBJECT: GATT BOP CONSULTATIONS WITH ICELAND

REF: GENEVA 6085

I. RECOMMENDATIONS. THE US REPRESENTATIVE MAY:

1. NOTE WITH SATISFACTION ICELAND'S CONTINUED EFFORTS TO
LIBERALIZE ITS IMPORT RESTRICTIONS.

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2. NOTE THAT ICELAND'S INTERNATIONAL ACCOUNTS SHOWED
SUBSTANTIAL IMPROVEMENT IN 1972 OVER 1971.

3. FOR FURTHER QUESTIONS, SEE SYSTEM AND METHODS OF RESTRIC-

TION BELOW.

II. SUMMARY

MARKED IMPROVEMENT HAS BEEN EVIDENCED IN BALANCE OF TRADE FOR CURRENT YEAR, AND RESERVES HAVE INCREASED BECAUSE OF GOVERNMENT BORROWING ABROAD. HOWEVER, OUTLOOK IS UNCERTAIN BECAUSE OF RAPIDLY RISING PRICES, HEAVY DEPENDENCE ON FISH CATCH, AND PRICES FOR FISH AND FISH PRODUCTS IN WORLD MARKETS. CHANGES IN EXCHANGE RATE HAVE BEEN PRINCIPLE MEANS USED BY AUTHORITIES DURING PAST YEAR TO ACHIEVE EQUILIBRIUM.

III. BALANCE OF PAYMENTS

QUESTION: WHAT ARE BALANCE OF PAYMENTS PROSPECTS FOR THE COMING YEAR?

BACKGROUND: THUS FAR IN 1973, BALANCE OF PAYMENTS AND RESERVE POSITION OF ICELAND HAS SHOWN CONSIDERABLE STRENGTH. DEFICIT ON TRADE OF DOLS 13 MILLION FOR FIRST EIGHT MONTHS REPRESENTS IMPROVEMENT OF DOLS 4 MILLION COMPARED WITH SAME PERIOD 1972. DEVALUATION OF KRONA (11 PERCENT IN 1972, AND 10 PERCENT IN FEBRUARY WITH EXCHANGE RATE IN TERMS OF DOLLAR UNCHANGED), COMBINED WITH UNUSUALLY FAVORABLE FISH PRICES ON WORLD MARKETS, WERE MAINLY RESPONSIBLE FOR THIS IMPROVEMENT. FOR YEAR AS WHOLE, NET LONG TERM CAPITAL INFLOW IS ESTIMATED AT ABOUT DOLS 25 MILLION, DUE LARGELY TO OFFICIAL BORROWING ABROAD; PRIVATE LONG TERM CAPITAL (AS LAST YEAR) WILL PROBABLY REGISTER SMALL NET OUTFLOW. GROSS OFFICIAL RESERVES (AS OF END OF SEPTEMBER) HAVE INCREASED BY DOLS 16 MILLION TO DOLS 100 MILLION. RESERVES OF THIS MAGNITUDE ARE EQUIVALENT TO ABOUT 43 PERCENT OF VALUE OF IMPORTS IN 1972.

ICELAND'S BALANCE OF PAYMENTS, HOWEVER, IS SUBJECT TO NUMBER OF WEAKNESSES AND UNCERTAINTIES, DUE PARTICULARLY TO COUNTRY'S HEAVY DEPENDENCE ON FISH CATCH AND UNPREDICTABLE DEVELOPMENTS IN FISH PRICES ON WORLD MARKETS. THUS DECLINE LIMITED OFFICIAL USE
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IN TRADE DEFICIT THIS YEAR SHOULD BE VIEWED AGAINST BACKGROUND OF LARGE DEFICITS IN 1971 AND 1972 WHICH AMOUNTED (WITH IMPORTS ON C.I.F. BASIS) TO DOLS 70 MILLION AND DOLS 42 MILLION, RESPECTIVELY. ALREADY THERE IS CONSIDERABLE UNCERTAINTY WITH RESPECT TO CONTINUATION OF FAVORABLE EXPORT PRICES WHICH HAVE BEEN MAINLY RESPONSIBLE FOR INCREASE IN EXPORT RECEIPTS DURING FIRST EIGHT MONTHS OF YEAR; AND DURING THIRD QUARTER OF 1973 IMPORTS APPEAR TO HAVE RISEN FASTER THAN EXPORTS.

IV. ALTERNATIVE MEASURES TO RESTORE EQUILIBRIUM

QUESTION: WOULD YOU COMMENT ON MEASURES UNDERTAKEN OR ENVISAGED TO RESTORE EQUILIBRIUM?

BACKGROUND: FACED WITH PROBLEM OF UPWARD PRICE AND COST PRESSURES (INDUCED BY A RAPID RISE IN EXPORT PRICES, EFFECT ON WAGE REGULATORY INDEX OF INCREASE IN IMPORT PRICES, AND TERMINATION OF THE PRICE FREEZE AT BEGINNING OF 1973), ICELANDIC AUTHORITIES IN APRIL ADOPTED SEVERAL STABILIZING MEASURES INCLUDING 6 PERCENT REVALUATION OF KRONA. THIS ACTION WAS FOLLOWED IN MID-JUNE BY DECISION TO PERMIT LIMITED FLOAT OF KRONA (TANTAMOUNT TO ADDITIONAL

2 PERCENT REVALUATION IN TERMS OF US DOLLAR), AND IN SEPTEMBER KRONA WAS REVALUED AGAIN BY 3.6 PERCENT. THUS, ICELANDIC AUTHORITIES DURING PAST YEAR HAVE BEEN RELYING HEAVILY ON REPEATED CHANGES IN EXCHANGE RATE TO ACHIEVE EQUILIBRIUM.

V. SYSTEM AND METHOD OF RESTRICTION

QUESTION: HAS ICELAND FORMULATED SCHEDULE FOR REMOVAL OF ITS REMAINING IMPORT RESTRICTIONS ON INDUSTRIAL PRODUCTS? WHAT FURTHER LIBERALIZATION ON OTHER PRODUCTS IS PLANNED?

BACKGROUND: ICELAND HAS ANNOUNCED PLANS TO REMOVE FEW REMAINING IMPORT RESTRICTIONS ON INDUSTRIAL PRODUCTS (EXCEPT PETROLEUM) BY DECEMBER 31, 1974. NO TIMETABLE, HOWEVER, HAS BEEN ANNOUNCED.

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ALL PRODUCTS NOT ON RESTRICTED LIST OR SUBJECT TO STATE TRADING MAY BE FREELY IMPORTED FROM ANY COUNTRY. SEVEN GLOBAL QUOTAS WERE ESTABLISHED FOR 1973 ON VARIETY OF COMMODITIES. 1972 QUOTAS ON SUGAR-PRESERVED FRUITS AND FRUIT PEELS, FISHING LINES AND CORDS, AND ROPE WERE OMITTED. QUOTAS FOR CANDY, CEMENT AND FURNITURE WERE SUBSTANTIALLY INCREASED. ITEMS UNDER QUOTA MAY BE IMPORTED FROM ANY COUNTRY AND CONSTITUTED 0.6 PERCENT OF TOTAL IMPORTS IN 1972. RESTRICTED COMMODITIES NOT UNDER QUOTA ARE SUBJECT TO DISCRETIONARY LICENSING. PRINCIPAL AMONG THESE ARE PETROLEUM PRODUCTS IMPORTED UNDER BILATERAL TRADE AGREEMENT WITH USSR.

QUESTION: DOES ICELAND CONTEMPLATE RENEWAL OF ITS BILATERAL TRADE AND PAYMENTS AGREEMENT WITH USSR UPON ITS EXPIRATION? WOULD ICELAND CLARIFY PRESENT BASIS FOR TRADE (TYPE OF AGREEMENT) WITH GDR?

BACKGROUND: ICELAND'S BILATERAL TRADE AGREEMENTS WITH HUNGARY AND RUMANIA WERE TERMINATED IN 1970 AND 1972 RES-

PECTIVELY. AGREEMENT WITH THE USSR COVERS PERIOD 1972-75. ICELAND HAS PREVIOUSLY INDICATED THIS ASSURES ICELAND A MARKET FOR ITS FISH PRODUCTS IN USSR.

PRIOR TO 1973 UNOFFICIAL BILATERAL ARRANGEMENT EXISTED BETWEEN ICELANDIC BARTER ASSOCIATION AND KAMMER FUR AUSSENHANDEL OF EAST GERMANY. IN JANUARY 1973 AGREEMENT COVERING TRADE WAS SIGNED BY RESPECTIVE GOVERNMENTS.

QUESTION: DOES ICELAND PLAN TO ALLOW PRIVATE IMPORTATION OF ANY PRODUCTS NOW UNDER STATE TRADING?

BACKGROUND: IMPORTS OF MATCHES, FERTILIZERS, ALCOHOLIC BEVERAGES AND TOBACCO ARE SUBJECT TO STATE TRADING. IN ADDITION, POTATOES AND FRESH VEGETABLES ARE CENTRALLY PURCHASED UNDER AUSPICES OF AGRICULTURAL PRODUCTION BOARD ONLY WHEN REQUIREMENTS CAN NOT BE MET BY DOMESTIC PRODUCTION. ICELAND HAD PREVIOUSLY (1969) CONSIDERED REMOVING MATCHES FROM STATE TRADING BUT FOUND THIS TO BE "IMPRACTICAL."

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ICELAND HAS JUSTIFIED ITS STATE TRADING MECHANISM ON BASIS OF REVENUE NEEDS AND PUBLIC HEALTH. IN PREVIOUS BOP CONSULTATIONS ICELANDIC DELEGATE HAS EMPHASIZED THAT THESE REGULATIONS ARE FULLY CONSISTENT WITH GATT.

QUESTION: IS ICELAND ABLE TO PROVIDE A PROJECTED TERMINATION DATE FOR LEVY ON MOTOR VEHICLE IMPORTS?

BACKGROUND: IN APRIL 1972 ICELAND IMPOSED A 25 PERCENT IMPORT LEVY ON C.I.F. KRONA PRICE OF ALL IMPORTED AUTOMOBILES AND MOTOR BICYCLES. MEASURE WAS ADOPTED AS MEANS TO DAMPEN DOMESTIC DEMAND AND PARTIALLY ALLEVIATE TRADE IMBALANCE. SINCE EARLY 1972 ICELAND'S TRADE AND PAYMENTS DEFICIT HAS IMPROVED AND FOREIGN RESERVES ARE HIGH. THIS TURN OF EVENTS HAS WEAKENED JUSTIFICATION FOR RETENTION OF LEVY. COMPETITIVENESS OF U.S. AUTOMOBILES DUE TO EXCHANGE RATE CHANGES AND INCREASED SALES OF U.S. VEHICLES IN RECENT MONTHS HAVE HELPED INCREASE IMPORTANCE OF THIS ISSUE TO UNITED STATES. KISSINGER

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